

Message Text

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SUBJ: PROPOSED EX-IM BANK FINANCING FOR SAN CARLOS, S.A.

1. LOCAL GUAYAQUIL FIRST NATIONAL CITY BANK MANAGER CRISCUOLO APPROACHED CONGEN RECENTLY WITH SITUATION DESCRIBED AS IMPERILING CITIBANK PRODUCT/PROJECT FINANCING IN ECUADOR. MATTER CONCERNS REPORTED IMPASSE WITH EX-IM BANK TO FINANCE SHARE OF COST OF IMPORTED EQUIPMENT AND GUARANTEE CITIBANK-NEW YORK PORTION OF LOAN.

2. SITUATION IS AS FOLLOWS ACCORDING TO CITIBANK-GUAYAQUIL AND MANAGER OF SAN CARLOS, XAVIER MARCOS: SAN CARLOS (FORMALLY CALLED SOCIEDAD AGRICOLA E INDUSTRIAL SAN CARLOS, S.A.) HAS PLANS FOR MAJOR EXPANSION OF SUGAR CANE MILL OPERATION REQUIRING FINANCING OF \$14,250,940. CURRENT PROPOSAL TO EX-IM BANK BY CITIBANK WAS FOR 45 PERCENT FINANCING BY EX-IM (\$5,131,170), ANOTHER 45 PERCENT BY CITIBANK-NEW YORK, AND THE REMAINING 10 PERCENT PLUS INSTALLATION COSTS (\$1,139,600 PLUS \$2,849,000) ARRANGED BY CITIBANK-GUAYAQUIL. (DOWN PAYMENT INSTALLATION COSTS TO BE FINANCED WITH DOLLARS FROM EURODOLLAR MARKET). PURPOSE OF LOAN IS TO PURCHASE NEEDED MACHINERY AND EQUIPMENT FOR SAN CARLOS FROM FULTON IRON WORKS OF ST. LOUIS, MISSOURI. CONGEN COMMERCIAL OFFICER MET WITH MARCOS DECEMBER 17 AND SAW CONTRACT WITH FULTON WORTH \$9,496,850 FOR THIS PURPOSE. PORTION OF EQUIPMENT WILL COME DIRECTLY FROM FULTON (WHO HAS SOLD MUCH EQUIPMENT TO SAN CARLOS IN PAST), WITH FULTON ACTING AS AGENT FOR PURCHASE OF REMAINDER.

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SAN CARLOS GOAL IS TO EXPAND ANNUAL SUGAR CANE PRODUCTION TO

3 MILLION QUINTALES (150,000 TONS) BY 1983, ROUGHLY A 50 PERCENT INCREASE OVER 1974'S 1.9 MILLION QUINTALES (95,000 TONS).

3. PROPOSED DISBURSEMENT OF AMOUNTS IS AS FOLLOWS:

A. EX-IM BANK -

MARCH 1975 \$1,183,906
MARCH 1976 \$3,947,264 TOTAL: \$5,131,170

B. CITIBANK-NEW YORK -

MARCH 1975 \$1,183,906
MARCH 1976 \$3,947,264 TOTAL \$5,131,170

C. CITIBANK-GUAYAQUIL

JANUARY 1975 \$1,139,600
JUNE 1975 \$ 656,700
JUNE 1976 \$2,192,300 TOTAL: \$3,988,600

4. PROPOSED REPAYMENT SCHEDULE IS:

A. EX-IM BANK - EIGHT SEMIANNUAL INSTALLMENTS OF \$641,383.05 STARTING DECEMBER 1980 AND ENDING JUNE 1984.

?. CITIBANK-NEW YORK - EIGHT SEMIANNUAL INSTALLMENTS OF \$641,383.05 STARTING DECEMBER 1976 AND ENDING JUNE 1980.

C. CITIBANK-GUAYAQUIL - EIGHT SEMIANNUAL INSTALLMENTS OF \$498,595 STARTING DECEMBER 1976 AND ENDING JUNE 1980.

5. CITIBANK-GUAYAQUIL INFORMS US THAT ON AUGUST 29, 1974 WHEN PROJECT DISCUSSED WITH EX-IM BANK WASHINGTON, TOTAL FINANCING REQUIREMENTS WERE ONLY \$12,955,400, BUT DUE TO PRICE INCREASES FOR DESIRED MACHINERY IN MEANTIME FINANCING REQUIREMENTS HAVE INCREASED TO THE PRESENT LEVEL. DURING AUGUST MEETING, CRISCUOLO SAYS, EX-IM SURPRISED CITIBANK WITH REQUEST FOR ECUADOREAN GOVERNMENT GUARANTEE ON EX-IM PORTION OF LOAN. FURTHERMORE, EX-IM INDICATED THAT DUE TO SCARCITY OF FUNDS THEIR PARTICIPATION COULD BE ONLY 30 PERCENT OF THE COST OF THE US GOODS AND THAT THEY NOT WILLING TO GUARANTEE CITIBANK-NEW YORK FINANCING SHARE AS IN PAST. THIS IS IMPASSE WE ARE NOW AT ACCORDING TO UNCLASSIFIED

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CITIBANK-GUAYAQUIL AND MARCOS.

6. FIRST, CITIBANK VIEW (SHARED BY CONGEN) IS THAT ECUADOREAN GOVERNMENT GUARANTEE NOT POSSIBLE AS SAN CARLOS IS WHOLLY PRIVATE-OWNED FIRM. SECOND, ALTHOUGH CITIBANK REALIZES THAT EX-IM POSITION IN AUGUST MAY HAVE BEEN DUE TO UNCERTAINTIES OF CHARTER RENEWAL AT THAT TIME, THEY INDICATE THAT BASIC EX-IM POSITION HAS NOT CHANGED. THIRD, MARCOS, WHO HAS ALREADY SEEN

COST OF EQUIPMENT RISE BY 10 PERCENT DURING DELAY, SEES FURTHER PRICE INCREASES WHICH MAY MAKE DEAL IMPOSSIBLE IF MATTER NOT SETTLED SOON (HE HOPES WITHIN 30 DAYS). FOURTH, WE KNOW OF NO REASON WHY SAN CARLOS SHOULD BE DENIED ASSISTANCE. FIRM IS VERY SOLVENT AND WELL-MANAGED. IT WAS ESTABLISHED IN 1937 AND IS LARGEST SUGAR PRODUCER IN ECUADOR. ALTHOUGH SUGAR LARGEST SINGLE PRODUCT, IT ALSO GROWS CORN, RICE, AND IS EXPERIMENTING WITH COTTON. FIRM HAS APPROXIMATELY 600 EMPLOYEES WITH EXCELLENT REPUTATION IN LOCAL BUSINESS AND BANKING COMMUNITY. WTDR OF 12/72 (FTI NO. 0053900) AVAILABLE IN USDOC CBUT CAN BE UPDATED IF DESIRED. FIFTH, SAN CARLOS ALREADY HEAVY PURCHASER OF US EQUIPMENT AND, AS A MAJOR PRIVATE AGRICULTURAL FIRM IN COUNTRY, WE WOULD LIKE TO MAINTAIN US-ORIENTATION WHICH EXISTS. FYI: FRENCH ARE STRONG COMPETITORS IN SUGAR-MILL EQUIPMENT IN ECUADOR. EXAMPLE IS AZUCARERA TROPICAL AMERICANA, S.A. (AZTRA), THIRD LARGEST PRODUCER IN ECUADOR, WHICH HAS ENTIRE MILL OF FRENCH EQUIPMENT AND DESIGN AND FRENCH ARE ACTIVELY FOLLOWING AZTRA EXPANSION PLANS. FRENCH WOULD PROBABLY BE ONLY TOO GLAD TO MOVE INTO SAN CARLOS PICTURE IF US DROPS OUT DUE TO LACK OF SUFFICIENT FINANCING.

7. ACTION REQUESTED: CONGEN, WITH CONCURRENCE OF EMBASSY'S COMMERCIAL SECTION, STRONGLY RECOMMENDS THAT EXIMBANK FAVORABLY CONSIDER INCREASING PARTICIPATION FROM 30 TO 45 PERCENT AND GUARANTEE FOR CITIBANK PORTION. THIS IN VIEW OF REPUTATION OF LOCAL FIRM AND PRICE TAG INVOLVED. MARCOS SAYS, HOWEVER, THAT IF EX-IM CAN PROVIDE AT LEAST 30 PERCENT FINANCING SAN CARLOS CAN PROBABLY OBTAIN BALANCE OF 15 PERCENT FROM CITIBANK DEWITT

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